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Reference notes for an address
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Government
Publications

Plain Release

The Canadian automotive industry has been described as being somewhat static and somewhat inflexible. The reasons, I believe, are the concentration of the industry in the Detroit area, and the public perception that as the automobile becomes increasingly automated, certain of the functions have concentrated in a building, and that the nature of the industry is changing and becoming less diversified. I think that is what has caused the industry to be somewhat less competitive and less profitable in the auto side. In this will be reflected in our challenges for the future.

REFERENCE NOTES FOR AN ADDRESS

BY

THE HONOURABLE JACK H. HORNER

WINDSOR CHAMBER OF COMMERCE

MARCH 14, 1979

WINDSOR

The Canadian economy should be considered in assessing the performance of the Canadian automotive industry over the past 10 years.

Employment growth for employment in this sector has been approximately 10 per cent higher than growth in employment in the Canadian economy as a whole.

During 1978 Canadian automobile parts producers, including GM, Ford, and GM, increased their production relatively little. In 1978, alone, there were 77,000 per cent of the total spent on labor to work out right in 1978.

1. The Canadian automotive industry has been the subject of considerable study and public debate. The Reisman Commission, The Consultative Task Force on the Automotive Industry, and the Arthur Report as well as recommendations forwarded by other interested parties in the industry have contributed to a better appreciation of the current situation and to an improved understanding of what lies ahead. In general, the industry is efficient, competitive and profitable. At the same time, it faces major technological challenges from more stringent energy conservation requirements and regulations on safety and emission levels.
2. The Canadian Government has considered all these studies in developing a sectoral policy for the automotive industry. Based on this review, the Government will implement measures to enhance production, employment and investment. The Goverment is also taking steps to ensure the industry's viability through the period of rapid technological change. It is essential that this industry employing 117,000 Canadians directly and accounting for 6.5 per cent of our GNP maintain its growth and vitality.
3. The following factors should be considered in assessing the performance of the Canadian automotive industry over the past 10 years:

Employment Growth in employment in this sector has been approximately 30 per cent higher than growth in employment in the Canadian economy at large.

Productivity Canadian automotive parts producers, including aftermarket, have improved their position relative to those in the U.S. since 1967. (From 77.0 per cent of the U.S. level in 1967 to 93.5 per cent in 1977)

In vehicle assembly, Canadian productivity now exceeds the U.S. level by about 20 per cent on the basis of motor vehicles produced per staff-hour.

Efficiency The Canadian industry has developed from one producing a low volume of each of many products, mainly for the Canadian market, to one assembling fewer car models and producing fewer parts, but in larger volumes, for the integrated North American market. About 70 per cent of Canadian vehicle production and 80 per cent of Canada's independent parts production are exported to the U.S.

Profitability and Investment In the early 1970s the profit margins of the major motor vehicle manufacturers in Canada were greater than those of their parents. Recently, this profit differential has narrowed. Competition, the anti-inflation program and the decline in the differential in auto prices when exchange-adjusted have contributed to the narrowing.

There were substantial investments in Canada by the major vehicle manufacturers in the mid-60s. However, between 1965 and 1977 the four major vehicle manufacturers made net direct investments in new plant and equipment in Canada that accounted for only 6.5 per cent of North American investment. (\$1.3 billion in Canada; \$20.0 billion in the U.S.).

Canadian automotive parts manufacturers have earned higher profits than their U.S. counterparts but have invested proportionately less. Nonetheless, the investment level by Canadian parts manufacturers is higher, as a percentage of North American investment, than that of the major motor vehicle manufacturers in Canada.

4. The Canadian investment climate is competitive for this industry. The record is one of superior profitability for the major vehicle manufacturers and the independent parts suppliers in Canada relative to the United States. The lower value of the Canadian dollar has been a plus. As a result, Canadian locations now have a significant competitive advantage, even with respect to locations in the U.S. mid-south. While the investment climate appears sufficiently

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attractive to ensure reasonable participation in new investment, investment in Canadian parts production is essential to maintain the industry growth and vitality. There are concerns about the effects of investment incentives available in the United States.

5. Trade is an important measure of the competitiveness of the Canadian industry. However, there is a misconception that the Canada/US trade balance in the automotive sector is the only measure of the health of that industry. The Reisman Commission's analysis of trade under the Automotive Agreement shows that, over time, changes in Canada's overall Agreement-related trade balance have been governed by cyclical factors in the economies of the two countries. While Canada now has a deficit under the Auto Pact, a recovery has been underway since 1976 and the deficit is a small portion of total Auto-Pact related trade.

6. The Automotive Agreement has been a major positive factor in the development of an efficient, competitive and profitable automotive industry in Canada. The Government agrees with the Reisman Commission recommendation that the Automotive Agreement should not be renegotiated at this time. Nonetheless, in view of the rapid technological change facing the industry, the Government will continue to assess the Automotive Agreement to ensure it provides an adequate framework for future development of the Canadian industry.

7. As recommended by both the Automotive task force and the Reisman Commission, the industry will be reviewed on an annual basis. Industry, Trade and Commerce will produce a report annually beginning with the 1979 model year. The report will be subject to consultation with all interested parties in the industry. It is noted that a major contribution of the Reisman Commission is the disaggregation of trade statistics to show trade balances in each of the major sub-sectors of automotive trade. This has significantly assisted analysis of developments in the industry. The format will be maintained for future statistical reporting.

8. Two areas of specific concern have been given particular attention: investment incentives and the relative lack of R&D in Canada. Widespread investment incentives available in the United States require a response. In the particular situation last summer, certain undertakings were made to Ford Motor Company, Ltd. so its planned investment would not be lost to Canada because of such incentives. That decision sparked considerable public debate about competitive subsidization to attract investment.

The Government's position is that its involvement in competitive subsidization with U.S. federal, state or municipal governments is a costly, no-win proposition for the governments. Such intervention in the investment decision making process will lead to uneconomic decisions.

The Government will pursue, on an urgent basis, discussions with U.S. authorities on this question. The objective of the discussions will be to reach agreement to contain the use of such investment incentives. Initial discussions have taken place but, pending their successful outcome, the Canadian government will not stand by while substantial investment is lost as a result of incentives available in other countries. To offset the effect of such incentives, special federal assistance will be considered when such aid is beyond the financial capability of the province concerned and when existing federal programs do not apply. The Government will also maintain its existing program of regional development incentives to encourage firms to locate in less-advantaged regions of Canada.

9. The long-term viability of the Canadian industry will depend importantly on a significant capacity to perform R&D in Canada. Now, there is a relative lack of such R&D. The situation must change or there is a risk that as technological change increases, production techniques for automotive parts will not develop sufficiently to meet the demand for new materials and products.

The Government has identified a need for special measures to increase the level of research and development in the Canadian automotive industry. As a first step, automotive parts manufacturers will be given access to the Enterprise Development Program (EDP) for innovation projects of exceptional benefit that are not otherwise

likely to be undertaken in Canada. This action, together with the increased tax incentives already in place, will improve the climate for innovation in Canada and will assist to increase Canadian technological capability. As well, this will provide highly skilled and specialized jobs in this major industrial sector.

Further, the Government has agreed in principle with the Reisman Commission recommendation that a program be developed to assist small, Canadian-owned firms to obtain foreign technology that can be adapted and developed in Canada. Such assistance will be made available through the Enterprise Development Program.

The Government is urging the major vehicle manufacturers to assign product lines and associated R&D to Canada and to actively develop suppliers in Canada for technology-intensive parts and research and development leading to technology developments. The Government expects the major manufacturers to stimulate the development of a high technology parts industry and to contribute to a reasonable overall balance in the sector.

The Government intends to co-ordinate, under Industry, Trade and Commerce, the automotive-related research and development activities of various federal departments and agencies. An inter-departmental Automotive R&D Panel is being established within which the Government will propose co-operative R&D programs with motor vehicle and parts manufacturers. Over the longer term, consideration will be given as to what type of R&D is most appropriate to Canada in terms of production, employment, and trade and product mandate.

Particular attention is being given to the role of Government in promoting R&D and product development in the automotive industry. It is noted that the U.S. Secretary of Transportation recently announced that funding is being made available for a major federal program to develop a new generation of automotive technology. Scope is available to work with U.S. authorities to ensure that R&D activities in the industry are complementary and to identify types of R&D that might be undertaken in Canada.

10. The Reisman Commission made an important contribution in its analysis and recommendations respecting automotive trade with countries other than the United States. Canada already has a duty remission program to encourage off-shore vehicle manufacturers to purchase automotive parts in Canada. The existing policy on duty remission will be maintained and the Government will continue to discuss such duty remission arrangements with off-shore manufacturers.

However, the Government has noted the Reisman Commission's recommendation that duty remission programs be replaced with a program permitting designated vehicle importers duty-free entry of vehicles if they procure or produce parts in Canada to a value of 60 to 75 per cent of the cost of vehicles imported. There are possible advantages to this proposal. The Government will consult further with the principal off-shore vehicle manufacturers who might take advantage of the proposal as well as with North American manufacturers to determine precisely the scope, the elements and the impact of such a program.

11. Both the Consultative Task Force and the Reisman Commission recommended that the Government establish an assistance program for automotive workers displaced as a result of major industrial adjustments in the parts sector. While the Government does not consider its announced measures will lead to a "major industrial adjustment" requiring such assistance, it does have in place now a wide range of labour adjustment programs including retraining and mobility assistance.

